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ZNR UUUUU ZZH

R 100525Z MAR 08 ZDK DUE TO NUMEROUS REQUESTS

FM AMEMBASSY BEIRUT

TO RUEHC/SECSTATE ASHDC 1248

INFO RUEHEE/ARAB LEAGUE COLLECTIVE

UCNMEM/EU MEMBER STATES

RHEHNSC/NSC WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RUCPDOC/USDOC WASHDC

UNCLAS SECTION 01 OF 02 BEIRUT 000356

SIPDIS

SENSITIVE

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STATE FOR NEA/ELA

STATE PASS USTR

TREASURY FOR MNUGENT AND SBLEIWEISS

USDOC FOR 4520/ITA/MAC/ONE

NSC FOR ABRAMS/SINGH/GAVITO

E.O. 12958: N/A

TAGS: ECON EFIN PREL PGOV LE

SUBJECT: LEBANON: SWAP OF MATURING EUROBONDS AND FRENCH SOFT LOAN  
EASE PRESSURE ON STATE FINANCES (ECONOMIC WEEK IN REVIEW, MARCH 3 - 9, 2008)

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CREDIT SUISSE AND AUDI BANK TO  
MANAGE UPCOMING EUROBOND ISSUE

¶1. (SBU) The Ministry of Finance (MOF) on March 6 contracted with  
international financial institution Credit Suisse and local Audi  
Bank as lead managers in a new five-year Eurobond to refinance March  
12 maturities amounting to \$869 million, a senior MOF source told  
us. The coupon is estimated to range between 9.125 percent and 9.5  
percent, relatively high compared to international rates but close  
to the rates for Lebanese papers in the secondary market.

LEBANON RECEIVES \$220 MILLION  
SOFT LOAN FROM FRANCE

¶2. (SBU) Lebanon received last week a \$220 million soft loan from  
the Agence Francaise de Developpement (AFD - French USAID  
counterpart), a senior source at the Finance Ministry told us on  
March 4. This amount was disbursed after Lebanon's Finance Minister  
Azour signed a Euro 375 million loan agreement for debt reduction on  
February 21, 2008, in Paris. This agreement is part of France's  
pledge at the Paris III Donors' conference.

PIRACY RELATED LOSSES ESTIMATED  
AT OVER \$26 MILLION IN 2007

**¶13. (U)** The International Intellectual Property Alliance (IIPA) estimated preliminary 2007 piracy-related losses in Lebanon at \$26.8 million, up from \$25.6 million in 2006, and accounting for 3.6 percent of all such losses in the MENA region. The IIPA recognized that some progress had been made in combating piracy, given the political and security situation in the country, mainly by the special police Cyber Crime and Intellectual Property Bureau, Customs, and the Ministry of Economy and Trade (MOET) inspectors. The IIPA believes more work needs to be done in terms of enforcing existing anti-piracy laws and improving the efficiency of the judiciary, and by imposing sentences for offenders which are more of a deterrent.

CONSUMER PRICES CONTINUE  
TO RISE IN 2008

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**¶14. (U)** According to reputed private consultancy firm Consultation and Research Institute (CRI), the Consumer Price Index (CPI) rose by 3.5 percent in January 2008 compared to December 2007. This increase was mostly due to a 7.7 percent increase in prices of personal care and other products and 7.46 percent increase in prices of food and beverages. The food sub-index showed an increase of 45.74 percent and 19.8 percent in prices of vegetables and fish/seafood respectively. Housing prices went up by 4.22 percent. On a yearly basis, the CPI increased by 5.7 percent between January 2007 and January 2008.

**¶15. (SBU)** The Central Administration of Statistics (CAS) will start issuing a monthly CPI under IMF technical assistance in two weeks, a CAS source told us, refusing to disclose their January CPI at this moment. CAS used to issue a quarterly CPI. CAS estimated inflation at 9.3 percent in 2007.

INDUSTRIALISTS TO SUE THE  
GOL FOR LACK OF PROTECTION

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**¶16. (U)** On March 3, the Association of Lebanese Industrialists (ALI) announced that it would sue the GOL for failing to protect local industries against unfair competition. ALI argues that local industries, especially those that are energy-intensive, cannot compete with imports from Arab states that subsidize the cost of energy for their local production, and with which Lebanon has signed free trade agreements. In a letter addressed to all Arab governments, ALI suggested countries either cut subsidies, allow Lebanon to impose duties on Arab imports, create a special fund to subsidize energy costs for non-oil producing countries, or give compensation to industries enabling them to open elsewhere.

AGRICULTURAL AND INDUSTRIAL EXPORTS  
RISE BY 23 PERCENT IN 2007

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**¶17. (U)** According to the Investment and Development Authority of Lebanon (IDAL)'s annual report, 2007 economic growth reached between 1.7 - 2 percent. Export of agricultural and industrial products rose by around 23 percent in 2007. Activity in Beirut's international airport as well as in the Port of Beirut rose by 20 percent and 59 percent respectively compared to 2006. The report also noted a significant rise in real estate transactions, valued at around \$4 billion, and the continued expansion of Lebanese banks abroad.

FORMER MINISTER ESTIMATES ECONOMY'S  
GROWTH POTENTIAL AT OVER SEVEN PERCENT

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**¶18. (U)** Former Economy and Trade Minister Adnan Kassar said on March 6, that had it not been for the deteriorating political situation, economic growth in Lebanon could have been over seven percent per year since 2005, compared to actual growth rates of zero percent in 2006 and around 2.5 percent in 2007. Kassar estimated losses in GDP of around \$3 billion, \$5 billion in Foreign Direct Income, and \$2.2

billion in the tourism sector in the past three years.

REAL ESTATE TRANSACTIONS REACH  
OVER \$4 BILLION IN 2007

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¶9. (U) In a March 7 interview with the Daily Star newspaper, general manager of real-estate firm Coldwell Banker, Elie Harb said that property sales reached \$4.2 billion in 2007, compared to a little over \$3 billion in 2006. According to Harb, 2007 was the best year for property sales and transactions since 2001. Meanwhile, leading Lebanese bank, Audi Bank's research department attributed the rise in real estate transactions to an increase in population, higher demand by expatriate Lebanese, relatively low taxes, improvement in property transfer operations, and ease of foreign ownership.

MASTERINDEX INDICATES SHARP DECLINE  
IN LEBANESE CONSUMER CONFIDENCE

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¶10. (U) MasterCard's biannual MasterIndex consumer confidence index survey for the second half of 2007 recorded a 38.6 out of 100 score for Lebanon, a sharp decline from 67.6 in the first half of the year. This indicates overall pessimism on all five indices used by the survey: measuring consumer expectations on the stock market -- with the highest drop compared to the second half of 2006 -- followed by quality of life, employment, economy, and regular income (the only index whose score was in the optimistic zone). Forecasts for the first half of 2008 indicate a continuation of the overall pessimism, with some expected improvement in the quality of life, stock market, and employment indices.

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